



HOUSE BUDGET COMMITTEE

Democratic Caucus

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Paying Down the Public Debt: The Missed Opportunity

Just two years ago, there was a firm bipartisan consensus in Washington to pay down — and ultimately to pay off — the public debt. And for good reasons:

- ***Lower Public Debt Means Lower Interest Costs*** — As recently as 1991, the federal government had to spend 18.4 cents of every tax dollar just to pay interest on the public debt. Those interest payments bought absolutely nothing for the American taxpayer. Paying down the debt, and thus bringing down the government's interest obligations, would add enormously to our nation's budgetary strength and flexibility. And it would create opportunities to address the looming demographic pressures on Social Security. Every plan to make Social Security financially sound requires resources beyond the revenues from the existing payroll tax. Members of both parties favored debt reduction because they saw interest savings as resources that could help to save Social Security.
- ***Paying Down the Debt Strengthens the Economy*** — Debt reduction — which means running budget surpluses — adds to the nation's pool of savings. Those savings are then available to private businesses to invest, expanding the size of the economy's productive base and increasing worker productivity. This, too, helps in addressing our number one budgetary and economic challenge: the retirement of the Baby Boom generation.

That is why the Administration claimed with pride in its budget of early 2001 that it would pay down all possible public debt by fiscal year 2008 — even after paying for its tax cuts, financing a prescription drug program for the elderly, reforming education, expanding the defense establishment, and financing the privatization of Social Security.

But the story in the Administration's new *Mid-Session Review* of the budget is dramatically different. Discussions of debt reduction have faded to the background. The Administration now expects to pay \$1.15 trillion more in debt service over ten years (2002 - 2011). And as a result, all discussion of saving Social Security has disappeared.

The reason is clear. On the very last line of the very last page of the *Mid-Session Review* (see next page), the Administration reveals that even with all of the assumed economic growth from its highly touted tax cuts (past and proposed), and even with all of the spending restraint that it unrealistically assumes, the nation's debt will be higher at the end of 2007 than it was at the end of 2001.

The first of the Baby Boomers will begin to claim Social Security benefits in 2008, when they reach 62 years of age. The Administration's *Mid-Session Review* reveals that, with the President's budget plan, we will by that time have accomplished less than nothing to prepare for this momentous economic and budgetary challenge. History may judge this as one of our nation's most important missed opportunities.

Table 20. FEDERAL GOVERNMENT FINANCING AND DEBT

(In billions of dollars)

	2001 Actual	Estimate					
		2002	2003	2004	2005	2006	2007
Financing:							
Unified budget surplus (+)/ deficit (-)	127	-165	-109	-48	53	60	84
Financing other than the change in debt held by the public:							
Premiums paid (-) on buybacks of Treasury securities ¹	-11	-4	.....	.....	.....	.....	.....
Net purchases (-) of non-Federal securities by the National Railroad Retirement Investment Trust .....	.....	-6	-11	-*	*	*	*
Changes in: ²							
Treasury operating cash balance	8	-6	-5	.....	.....	-5	.....
Checks outstanding, deposit funds, etc. ³	-13	-12	10	.....	.....	.....	.....
Seigniorage on coins	1	1	1	1	1	1	1
Less: Net financing disbursements:							
Direct loan financing accounts	-19	-15	-15	-15	-15	-15	-15
Guaranteed loan financing accounts	-4	-2	3	3	4	5	5
Total, financing other than the change in debt held by the public	-37	-44	-17	-11	-9	-14	-8
Total, amount available to repay debt held by the public	90	-209	-126	-58	44	47	76
Change in debt held by the public	-90	209	126	58	-44	-47	-76
Debt Subject to Statutory Limitation, End of Year:							
Debt issued by Treasury	5,743	6,155	6,535	6,897	7,195	7,506	7,805
Adjustment for Treasury debt not subject to limitation and agency debt subject to limitation ⁴	-15	-15	-15	-15	-15	-15	-15
Adjustment for discount and premium ⁵	5	5	5	5	5	5	5
Total, debt subject to statutory limitation ⁶	5,733	6,145	6,524	6,887	7,184	7,496	7,795
Debt Outstanding, End of Year:							
Gross Federal debt: ⁷							
Debt issued by Treasury	5,743	6,155	6,535	6,897	7,195	7,506	7,805
Debt issued by other agencies	27	27	26	26	24	24	23
Total, gross Federal debt	5,770	6,182	6,561	6,923	7,219	7,530	7,828
Held by:							
Debt securities held by Government accounts	2,450	2,654	2,906	3,210	3,550	3,908	4,202
Debt securities held by the public ⁸	3,320	3,529	3,655	3,713	3,669	3,622	3,546

* \$500 million or less

¹ Includes only premiums paid on buybacks through April 2002. Estimates are not made for subsequent buybacks.² A decrease in the Treasury operating cash balance (which is an asset) would be a means of financing a deficit and therefore has a positive sign. An increase in checks outstanding or deposit fund balances (which are liabilities) would also be a means of financing a deficit and therefore would also have a positive sign.³ Besides checks outstanding and deposit funds, includes accrued interest payable on Treasury debt, miscellaneous liability accounts, allocations of special drawing rights, and, as an offset, cash and monetary assets other than the Treasury operating cash balance, miscellaneous asset accounts, and profit on sale of gold.⁴ Consists primarily of Federal Financing Bank debt.⁵ Consists of unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds) and unrealized discount on Government account series securities.⁶ The statutory debt limit is \$6,400 billion.⁷ Treasury securities held by the public and zero-coupon bonds held by Government accounts are almost all measured at sales price plus amortized discount or less amortized premium. Agency debt securities are almost all measured at face value. Treasury securities in the Government account series are measured at face value less unrealized discount (if any).⁸ At the end of 2001, the Federal Reserve Banks held \$534.1 billion of Federal securities and the rest of the public held \$2,785.9 billion. Debt held by the Federal Reserve Banks is not estimated for future years.

Under the Bush plan, debt at the end of 2007
 → is higher than debt at the end of 2001.